Manitou-Barvue Mines Limited

Annual Report 1976

MANITOU-BARVUE MINES LIMITED

Officers	Michael J. Murray . . . . . . Chairman
	Daniel L. Marcus . . . . . . President
	Thomas L. Mansfield . . . . . . Executive Vice-President
	Gordon R. Cameron . . . . . . Vice-President, Operations
	Ignatius A. McEwan, Q.C. . . . . . . Secretary
	James E. Wild, C.A. . . . . . . Treasurer
Directors	Gordon R. Cameron . . . . . . Malartic, Quebec
	Thomas L. Mansfield . . . . . . Hamilton, Ontario
	Michael J. Murray . . . . . . Ottawa, Ontario
	Daniel L. Marcus . . . . . . Ottawa, Ontario
	Harry B. Rosenberg . . . . . . Ottawa, Ontario
Consulting Geologist	Denis R. Agar, B.Sc., Eng. . . . . . . Val d'Or, Quebec
Auditors	Thorne Riddell & Co. . . . . . . Toronto, Ontario
Bankers	The Bank of Nova Scotia . . . . . . Toronto, Ontario
Registrar and Transfer Agent	Guaranty Trust Company of Canada . . . . . . Toronto, Ontario
Share Listing	Toronto Stock Exchange . . . . . . Toronto, Ontario
Head Office	Suite 2005, 130 Albert Street . . . . . . Ottawa, Ontario

Report of the Directors

Report to Shareholders:

Your Directors submit their report for the year ended 31 December, 1976. Included herein are the audited financial statements and the report of the Mine Manager covering operations at the mine from 1 January, 1976 until its sale to Louvem Mining Company Inc. on 11 August, 1976.

Net income of $2,390,959 or 83¢ per share was earned in 1976 as compared with a net loss of $37,779 or 1¢ per share which was incurred in 1975. These financial results include extraordinary net gains of $2,147,733 in 1976 and $276,100 in 1975.

Shareholders will recall that 1975 was a trying one for your Company owing to escalating operating costs and low metal prices. Ore reserves declined by 308,093 tons in 1975 and an operating loss of $313,879 was sustained.

The Company's main assets were its 1,600 ton per day mill and its base metal mining property which had been in operation for 35 years. As profitable mining operations became more difficult to achieve, we were fortunate that Louvem Mining Company had discovered a substantial orebody a short distance from our mine and that we were able to mill their ore on a mutually advantageous basis. As time went on, the viability of our own operations became more and more intertwined with those of Louvem. Revenues derived from the custom milling of Louvem's ore were increasing while ore reserves and production from our mining operations were decreasing. In order to achieve optimum results from the two mining properties and facilities, it was recognized that sole ownership thereof was essential.

At a General Meeting of Shareholders which took place on 10 August, 1976, shareholders approved the sale of our base metal mining property, mill, townsite, plant and operating supplies to Louvem Mining Company. As a result of that sale, the principal assets of the Company are currently made up of short term deposits and notes and royalties receivable.

Important interests held by the Company in mining properties include (i) a participating or carried interest, at our option, in the Barvue zinc-silver property which will likely be placed into production when metal prices are favourable, (ii) an equal joint interest with Louvem in 17 mining claims contiguous to our former base metal mining property and (iii) an option on 24 copper claims in Bourlamaque Township, Quebec. It is anticipated that additional exploration or development work will be carried out on these three mining properties during the coming year.

The Company's policy is to remain in the natural resource field and to invest company funds to obtain a maximum rate of return commensurate with risk-reward factors. We recently agreed to participate, to the extent of $1,000,000, in a programme for the exploration and development of natural gas and oil in Alberta and British Columbia. Our participation is to be through a limited partnership agreement and is to be part of a projected $25,000,000 exploration and development programme. This commitment is the first to be made by the Company for the exploration and development of energy resources in Canada and it is consistent with

the Company's long record of participation in the natural resource field.

Due to the strong financial position of the Company, we have received and continue to receive a number of proposals for investment in the development of Canadian natural resources. These opportunities are being assessed with the objective of increasing profitability through optimum utilization of the Company's assets. We are confident that the natural resource opportunities in which we choose to invest will prove to be rewarding for shareholders.

D. L. MARCUS,

President

25 May, 1977.

Report of the Mine Manager

To the President and Directors:

This report summarizes operations at the Company's Val d'Or mine from 1 January, 1976 until its sale to Louvem Mining Company Inc. on 11 August, 1976.

PRODUCTION

Production during the period 1 January, 1976 to 11 August, 1976 amounted to 106,743 tons or an average of 480 tons per day as compared with 244,995 tons or an average of 671 tons per day in 1975. Because of prevailing costs and metal prices, operations were carried out with a reduced mine force and, through implementation of a more selective mining practice, a higher grade or ore was mined. Comparative grades of silver-zinc ore treated in 1976 and 1975 are as shown hereunder:

	1976	1975
Silver	2.83 ozs.	2.46 ozs.
Zinc	3.13%	1.81%
Gold	0.03 ozs.	0.018 ozs.
Lead	0.51%	0.30%

CUSTOM MILLING

A total of 127,894 tons of zinc ore of Louvem Mining Company were milled on a custom basis during the 7.3 month period of 1976, as compared with 154,948 tons of Louvem copper and zinc ores in 1975.

MINING AND EXPLORATION

Mine development footages were maintained during the 7.3 months of operation in 1976. Exploration drifting and diamond drilling exceeded 1975 efforts.

	Exploration Drifts	Stope Drifts	Raising	Exploration Diamond Drilling
1975	100′	5,036′	1,561′	14,375′
1976 (7.3 months)	1,160′	3,302′	760′	15,068′

ORE RESERVES

Silver-zinc ore reserves were relatively unchanged during the year. At the transfer of ownership of the mine on 11 August, 1976, the combined estimated broken, proven and indicated silver-zinc ore reserves totalled 890,000 tons grading 3.8 ozs. silver, 2.3% zinc, 0.02 ozs. gold and 0.3% lead per ton.

Copper ore reserves remained unchanged at approximately 100,000 tons grading 1.11% copper, 0.01 ozs. gold and 0.13 ozs. silver.

Respectfully submitted,

E. S. SHORT,
Mine Manager

Val d'Or, Quebec
16 May, 1977.

BALANCE SHEET AS AT DECEMBER 31, 1976

assets

Current Assets

Cash and short-term deposits . . . . .
Accounts receivable . . . . .
Receivable on sale of mining operation (note 3) . . . . .
Notes receivable (note 3) . . . . .
Accrued interest receivable . . . . .
Metal concentrates . . . . .
Prepaid expenses . . . . .

Other Assets

Receivable on sale of mining operation (notes 2 and 3) . . . . .
Operating supplies, at cost . . . . .
Investment in subsidiary companies (note 4) . . . . .
Investment in an associated company (note 5) . . . . .
Option on mining claims (note 6) . . . . .
Property held for resale, at cost . . . . .

Fixed Assets

Furniture, fixtures and equipment, at cost . . . . .
Less accumulated depreciation . . . . .

Interest in mining claims, at nominal value (note 2) . . . . .
Mining lands and rights, including surface rights, at cost . . . . .

liabilities

Current Liabilities

Bank loan . . . . .
Accounts payable and accrued liabilities . . . . .
Deferred lease revenue (note 2) . . . . .
Mining taxes payable (note 2) . . . . .

shareholders' equity

Capital Stock (note 7)

Authorized – 8,500,000 shares without par value
Issued – 3,821,179 shares . . . . .

Retained Earnings (Deficit) . . . . .

Deduct associated company's holding of 954,427 shares of the company, at cost to associated company

Contractual and other commitments (note 8)

MANITOU-BARVUE MINES LIMITED

(Incorporated under the laws of Ontario)

1976	1975
$1,738,217	$ 35,955
22,802	106,771
204,000	
900,000	200,000
65,778	
	858,396
	4,484
2,930,797	1,205,606
1,095,700	200,000
	273,429
1	1
116,998	114,489
65,000	40,000
101,980	99,705
1,379,679	727,624
248,866	1,176,564
139,719	859,958
109,147	316,606
1	
	160,651
109,148	477,257
$4,419,624	$2,410,487
	$ 285,000
$ 230,854	432,132
4,456	
100,000	
335,310	717,132
3,354,940	3,354,940
1,053,768	(1,337,191)
4,408,708	2,017,749
324,394	324,394
4,084,314	1,693,355
$4,419,624	$2,410,487

AUDITORS' REPORT

To the Shareholders of
Manitou-Barvue Mines Limited

We have examined the balance sheet of Manitou-Barvue Mines Limited as at December 31, 1976 and the statements of income, retained earnings (deficit) and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE RIDDELL & CO.
Chartered Accountants

Toronto, Canada
March 31, 1977

Approved by the Board:

D. L. MARCUS, Director

H. B. ROSENBERG, Director

MANITOU-BARVUE MINES LIMITED

statement of income

Year ended December 31, 1976

	1976	1975
Metal production (note 2)	$2,192,257	$ 3,580,957
Custom milling	809,063	910,672
	3,001,320	4,491,629
Mine operating expenses, other than undernoted	2,620,532	4,296,395
	380,788	195,234
Other income		
Investment	161,491	
Rental and miscellaneous	20,503	3,971
	562,782	199,205
Other expenses		
Deferred development expenditures written off		47,050
Outside exploration	10,888	58,367
Professional and consulting fees	43,533	81,553
Administrative and general	188,106	209,395
Interest	11,334	21,370
Depreciation	68,204	85,012
	322,065	502,747
	240,717	(303,542)
Share in income (loss) of associated company (note 5)	2,509	(10,337)
Income (loss) before extraordinary items	243,226	(313,879)
Extraordinary items		
Gain on sale of mining assets (note 2)	2,147,733	391,473
Loss on investment in subsidiaries		(115,373)
	2,147,733	276,100
Net income (loss)	$2,390,959	$ (37,779)
Earnings (loss) per share (note 1(a))		
Income (loss) before extraordinary items	9¢	(11¢)
Net income (loss)	83¢	(1¢)

statement of retained earnings (deficit)

Year ended December 31, 1976

	1976	1975
Deficit at beginning of year	$1,337,191	$ 1,299,412
Net income (loss)	2,390,959	(37,779)
Retained earnings (deficit) at end of year	$1,053,768	$(1,337,191)

statement of changes in financial position

Year ended December 31, 1976

	1976	1975
Working capital derived from		
Operations	$ 333,792	
Decrease in operating supplies		$ 32,775
Proceeds on sale of mining assets (net of expenses)	2,732,060	500,000
Issue of capital stock on conversion of 5% convertible sinking fund debentures		2,479
Reclassification of note receivable as current asset	200,000	
	3,265,852	535,254
Working capital applied to		
Operations		262,586
Additions to fixed assets	6,450	28,949
Expenditures on property held for resale	2,276	14,803
Non-current receivable being partial consideration on sale of mining assets (notes 2 and 3)	1,095,700	200,000
Acquisition of operating supplies	29,413	
Payment on option on mining claims	25,000	
	1,158,839	506,338
Increase in working capital	2,107,013	28,916
Working capital at beginning of year	488,474	459,558
Working capital at end of year	$2,595,487	$ 488,474

MANITOU-BARVUE MINES LIMITED

notes to financial statements

Year ended December 31, 1976

1. Accounting Policies

(a) Investment in an associated company

The company accounts for its investment in shares of Quebec Manitou Mines Limited on the equity method, net of the cost to Quebec Manitou Mines Limited of its holding of shares of Manitou-Barvue Mines Limited. Earnings per share are based on the shares outstanding other than those held by Quebec Manitou Mines Limited.

(b) Depreciation

Depreciation is provided on the straight-line basis using the following annual rates:

Mine assets	
To date of sale of mining operation	12½%
From date of sale of mining operation, on net book value of equipment leased to purchaser	33⅓%

(c) Exploration expenditures

Expenditures on mineral exploration programmes are deferred on a specific project basis until the viability of the project is determined. If a project is discontinued, the accumulated project costs are charged to income. If a project is developed, the related accumulated costs are amortized against future income from that project.

(d) Royalty receivable

The guaranteed royalty (notes 2 and 3) has been reflected on a present value basis at the date of sale. Imputed interest at 10% will be taken into income as the royalty is received.

2. Sale of Mining Assets

In August 1976, the company sold substantially all of its mining operation in Bourlamaque Township, Quebec, as follows:

(a) a 50% undivided interest in certain mining claims contiguous to the mining property;

(b) the mine property, townsite, buildings and all related equipment and supplies required for operation of both mine and mill, excepting certain mining equipment which is being leased to the purchaser (see below); and

(c) all the company's transferable rights relating to the sold property and the mining operation.

The sale consideration consisted of the following:

(a) an initial cash payment of $1,000,000 at closing, and notes receivable bearing interest at prime bank rates effective from time to time, maturing as to $700,000 on February 10, 1977 and $650,000 on February 10, 1978 (see note 3); and

(b) a guaranteed royalty of $750,000 in respect of the first 300,000 tons to be mined from the property, whether mined or not, and to be paid in amounts of not less than $250,000 per year by quarterly instalments. The value of this royalty has been reflected in the accounts at fair value of $625,000 at the date of sale. On any tonnage mined in excess of 300,000 tons, a royalty of 75 cents per ton is payable to the company and is to be indexed to the Consumer Price Index commencing 12 months after the 300,000th ton is mined.

The company's retained 50% interest in certain mining claims is reflected in the accounts at nominal value, and the company and the purchaser intend to carry out a joint exploration programme on the claims at an estimated cost of $50,000, such cost to be shared pro rata.

Concurrently with the sale, the company agreed to lease certain of its mining equipment to the purchaser for a term of three years at a rental of $40,000 per annum. The net book value of the equipment, as at the date of commencement of the lease, is being depreciated over its term.

The gain on the sale of the mining operation is reflected in the accounts net of a provision for mining taxes in the amount of $100,000, as such taxes would not have been exigible had the sale of the mining operation not occurred.

3. Receivable on Sale of Mining Operation

	Current	Long-term
Barraute Township		
Note arising from the sale of the Company's mining lands and rights in Barraute Township, Quebec in 1975, bearing interest at prime bank rates effective from time to time, maturing December 31, 1977	$ 200,000	
Bourlamaque Township		
Notes arising from the sale of the company's mining operation in Bourlamaque Township, Quebec in 1976 (see note 2), bearing interest as above:		
(i) maturing February 10, 1977	700,000	
(ii) maturing February 10, 1978		$ 650,000
Guaranteed royalty and imputed interest	204,000	445,700
	904,000	1,095,700
	$1,104,000	$1,095,700

4. Investment in Subsidiary Companies

These financial statements reflect the company's investment in its subsidiaries at nominal value, as they are inactive and without assets of any significant value.

5. Investment in an Associated Company

The company's investment in Quebec Manitou Mines Limited (a 33% interest) is reflected in the accounts net of the cost to the latter company of its holding of 954,427 shares of Manitou-Barvue Mines Limited, as follows:

	1976	1975
Shares		
Balance at beginning of year, as stated on the equity basis	$438,883	$449,220
Share in income (loss) for year	2,509	(10,337)
Balance at end of year (quoted market value 1976, $201,600; 1975, $158,400)	441,392	438,883
Deduct associated company's holding of 954,427 shares of the company at cost to associated company	324,394	324,394
	$116,998	$114,489

6. **Option on Mining Claims**

By agreement dated May 12, 1971, the company issued 40,000 shares of its capital stock as consideration for an option to acquire an interest in 24 mining claims in Bourlamaque Township, Quebec. The option has been extended to June 30, 1981 by payment to the optionor of $25,000 cash, pursuant to an amendment to the agreement.

The company must spend sufficient funds to keep the property in good standing and may elect to put the property into production at its sole expense.

If the company so elects the agreement provides:

(a) that the company be reimbursed for its expenditures and receive an additional payment of $100,000 out of net cash flow;

(b) that up to an additional 35,000 shares of the company be allotted to the optionor, at an assigned value of $1 per share; and

(c) that profits be allocated as to 75% to the company and 25% to the optionor.

7. **Capital Stock**

At December 31, 1976, options under the company's incentive stock option plan were outstanding at a price of $1.00 per share on 15,000 shares, exercisable on or before October 31, 1977.

8. **Contractual and other Commitments**

Forward exchange contracts (net)

In 1977, foreign exchange contracts of U.S. $2,000,000 net were liquidated with the gain thereon being reflected in the accounts for that year.

Resource investment

The company has authorized the entering into a limited partnership agreement pursuant to which it intends to invest $1,000,000 in a programme for the exploration and development of natural gas and oil in Canada, initially in Alberta and British Columbia.

9. **Other Statutory Information**

Direct remuneration of directors and senior officers (as defined by The Business Corporations Act) is as follows:

	1976	1975
Directors	$ 98,524	$ 86,765
Senior employees	73,024	104,146
	$171,548	$190,911

10. **Income Taxes**

At December 31, 1976, amounts totalling approximately $5,300,000 are available for deduction from future taxable income as follows:

Capital cost allowance	$4,800,000
Loss carried forward on a tax filing basis available until December 31, 1981	500,000

11. **Anti-inflation Act**

Dividends are not presently being paid. However, under the anti-inflation legislation, the company cannot pay dividends exceeding $192,921 prior to October 13, 1977.